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THE ISLAND TELEPHONE COMPANY LIMITED

Six Month Report

TO JUNE 30th 1972



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THE ISLAND TELEPHONE COMPANY LIMITED

TO THE SHAREHOLDERS:

Net income for the first six months of the year was \$373,302, compared to \$321,074 for the same period a year ago. Earnings per average common share were \$.62 for the period, compared to \$.52 a year ago.

Rate of return on average invested capital for the six months was 8.78%, compared to 8.39% a year ago; return on average common equity was 12.26%, compared to 11.08%. Long distance calling continued to gain (up 8.39% over a year ago), and telephone installations showed a gratifying increase, up 143% over the first six months of 1971; this increase was due to a strong selling effort coupled with removal of the installation charge for add-on residential services.

The increased volume of telephone installations and related items has required a revision in our forecast of capital expenditures for the year, now estimated to be \$3,379,000. To date construction program expenditures have totalled \$1,578,690. On July 25, at a special general meeting of common shareholders, approval was granted for the conversion of unissued common and preference share capital to 75,000 preference shares, par value \$20 each. Your directors subsequently approved the issuance of 75,000 7¼% Cumulative, Redeemable Preference Shares, par value \$20, and entered into an agreement with the Company's Underwriters whereby these shares were offered for sale to the public. Proceeds of the issue will be used to retire bank loans and short term notes, to retire the \$300,000 Series B 4¾% First Mortgage Bonds due December 1, and to meet capital construction expenditures this year.

SIX MONTH GROWTH

(compared to same period 1971)

Long distance calls	1,274,604, up 8.3%
Salaries and wages	\$728,470, up 19.8%
Telephone gain	1,823, up 143.4%
Telephones in service June 30	37,538, up 8.0%
Employees June 30	270, up 11.6%

A. S. Richardson
President

Charlottetown, P.E.I.
July 28, 1972

Condensed
Financial Position
Statement

	As at June 30	
	*1972 \$	1971 \$
Telephone Plant	21,082,738	18,817,929
Accumulated depreciation	5,301,388	4,794,117
Investments	72,071	52,072
Current assets	856,344	895,991
Deferred charges	103,687	32,276
Shareholders' equity - preference	1,550,000	1,550,000
- common	5,555,953	5,168,839
Long-term debt - first mortgage bonds	6,750,000	5,000,000
- bank and other notes	735,000	1,215,000
Current liabilities	505,161	598,123
Deferred credits	1,717,338	1,472,189

Interim Income Statement

	Six Months Ended June 30		Twelve Months Ended June 30	
	*1972 \$	1971 \$	*1972 \$	1971 \$
Operating revenues	2,568,965	2,289,069	5,064,282	4,296,921
Operating expenses and other taxes	1,661,458	1,448,641	3,225,979	2,843,234
	907,507	840,428	1,838,303	1,453,687
Other income	29,592	8,402	35,737	8,682
Income before interest and income taxes	937,099	848,830	1,874,040	1,462,369
Interest	252,929	204,576	480,126	414,417
	684,170	644,254	1,393,914	1,047,952
Income taxes	310,868	323,180	641,658	526,060
Net income for period	373,302	321,074	752,256	521,892
Earnings per average common share	.62	.52	1.24	.83
Average number of common shares outstanding	542,076	537,296	542,076	537,274

Source and
Application
of Working
Capital

	Six Months Ended June 30	
	*1972 \$	1971 \$
Operating revenues and other income	2,598,557	2,297,471
Less charges to income requiring working capital	1,658,537	1,456,119
Working capital from operations	940,020	841,352
Other	27,447	117,475
Total internal source	967,467	958,827
Repayment of advance by parent company	1,500,000	—
Long-term debt, bank and short-term loans	735,000	1,060,000
Employees' stock savings plan	15,413	12,686
Total source of working capital	3,217,880	2,031,513
APPLICATION OF WORKING CAPITAL		
Construction program expenditures	1,578,690	1,087,537
Less charges not requiring working capital	97,088	73,348
	1,481,602	1,014,189
Redemption of long-term debt, bank and short-term loans	1,250,000	750,000
Dividends	201,754	173,452
Investments	10,000	20,000
Total application of working capital	2,943,356	1,957,641
INCREASE (DECREASE) IN WORKING CAPITAL	274,524	73,872

*Unaudited